

## Impact of Corporate Social Responsibility on Organizational Performance of Tobacco Industry of Pakistan with Moderating Role of Business Ethics

### Author's Details:

<sup>1</sup>**S. M. M. Raza Naqvi**-Assistant Professor, Department of Management and Social Sciences, Muhammad Ali Jinnah University, Islamabad. <sup>2</sup>**Nousheen Kanwal**-MS Scholar, Department of Management and Social Sciences, Muhammad Ali Jinnah University, Islamabad. <sup>3</sup>**Maria Ishtiaq**-MS Scholar, Department of Management and Social Sciences, Muhammad Ali Jinnah University, Islamabad. <sup>4</sup>**Muhammad Usman Butt**-Anglia Ruskin University, Chelmsford, U.K. **Corresponding Author:** S. M. M. Raza Naqvi\*Assistant Professor Faculty of Management Sciences D-Block, First Floor, Office # 102 Mohammad Ali Jinnah University Islamabad Express Highway Near Kaakpul, kahuta Road Sihala Zone-V, Islamabad 111-878787 Ext-196

### Abstract

*This study has investigated the relationship between CSR, organizational performance and business ethics on employees of tobacco industry of Pakistan. 242 employees of three tobacco companies were the respondents. Three hypotheses were developed after reviewing a vast literature and all were accepted. Findings of this study showed that Tobacco companies are now moving towards the fulfillment of their social responsibility by behaving ethically, this motivates their employees and also enhances the overall organizational performance.*

**Key words:** Corporate Social Responsibility, Organizational Performance, Tobacco industry, Business Ethics

### Introduction

The impression of CSR was dignified in the middle of the previous century. It has been defined as company proceedings addressing subjects which are further than the extent of its slender requirements. Corporations all over the world are under pressure with a new position that is to fulfill the needs of the current society without conciliating the aptitude of the next generation to fulfill their own needs. Providing welfare to the society and creating healthy environment through positive activities is not an easy thing; only companies who really think of it can go for it. West has many researches on the topic of CSR because they focus on it in reality. Very few studies on CSR have been conducted here in Pakistani context with the moderating role of business ethics. Organizations need to behave ethically in business environment so that they can enhance their performance and the profit maximization.

### Literature Review:Corporate Social Responsibility

Notion of CSR has been explained in many ways by different researchers, the reason of its existence is to protect the society from harm and disasters done by companies intentionally or unintentionally. In different investigations CSR is usually visualized as a solitary wider construct encompasses of actions meant at stakeholder management (Ioannou & Serafeim, 2010) or is known as corporate activities to compensate for social and economic injustices (Anzas et al., 2011) because stakeholders of the company also involves the end users who use the products of the company. The main responsibility of the tobacco industry is to protect the teenagers especially from the heavy damage of cigarettes etc. by providing them awareness of this thing. Every

definition of CSR explains the same phenomenon that is the organizations are concerning CSR activities for fabricating sanitized products, realizing for better surroundings, the social consciousness of the most important issues, treating workers fairly, and charitable activities to attain sustainability in the market (Ali, Kashif Ur Rehman, Yilmaz, Nazir & Ali, 2010). In fact the exemplery CSR has both ethical and theoretical magnitudes, mainly in Pakistan where there exists a broad gap between segments of people in conditions of income and principles as well as socioeconomic ranks (Srivastava, Negi, Mishra & Pandey, 2012).

From the above literature we have developed following hypothesis:

**H1: Corporate Social Responsibility is positively and significantly related to Organizational Performance.**

### Organizational performance

Organizations are scrutinized as systems of center, complicated and self-governing constituents (Carmeli & Tishler, 2004) whereas; performance of an organization is the end result of an organization's work procedures and efforts. Some researchers say that the performance of an organization is the aptitude of a company to manage total methodical processes compared to its goal-seeking manners (Wischnevsky & Damanpour, 2006), because organizational performance is impossible to be measured without considering the overall goals of the organization (Skerlavaj, Stemberger, Skrinjar & Dimovski, 2006).

Resource-based view theory plays the supporting role for the organizational performance because it shows how a firm can get its competitive advantage by using its resources effectively and efficiently (Barney, 1991). At

the same time researchers investigated that a firm could get the enhanced organizational performance through providing the best quality of its product (Naqvi, Ishtiaq, Kanwal & Inderyas, 2012).

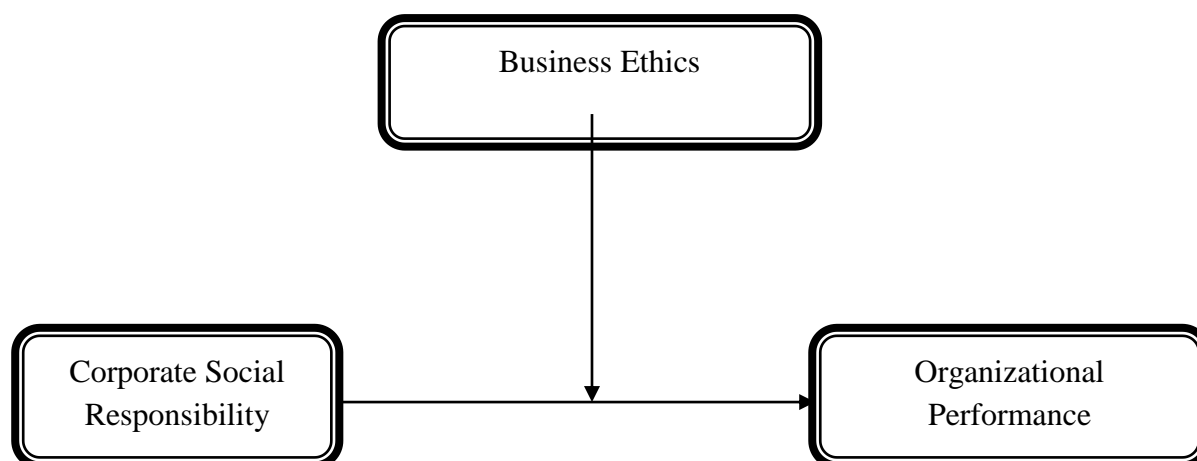
Organizational performance always increases when an organization's top tier is there to think about society's benefits along with their own. Society of Pakistan is highly sensitive especially when it comes to health; teenagers are the most affected ones from the use of tobacco products. Tobacco companies of Pakistan thus need to create a healthy image on society and especially on teenagers of Pakistan, they should tell them the damages of excess of cigarettes etc. As media of Pakistan is strong enough to shape an image of any product whether it is positive or negative, they should create the image which should be beneficial for the teenagers and would lead them towards addiction (Striteska & Kubiznakova, 2010).

Hypothesis developed from the above discussion is:

***H2: Organizational Performance is positively and significantly related to Corporate Social Responsibility. Business Ethics***

***H3: Business Ethics positively and significantly moderates the relationship between Corporate Social Responsibility and Organizational Performance.***

### Conceptual Framework



### Methodology

The purpose of this study was to investigate the relationship of Corporate Social Responsibility, Organizational Performance and Business Ethics in Tobacco industry of Pakistan. The reason of conducting this research specifically on Tobacco industry was because they need to be socially more responsible for the society as a large number of our young

Ethics in business were firstly introduced when the scandals of Enron and Worldcom came into existence, after these disastrous scandals Sarben-Oxley Act of 2002 was created to explain the rules of ethics and compliance for a company (Micheal, 2006). Those scams brought a big change in the world of ethics, it moved on towards organizations to let them aware of the morale rights of stakeholders of company. This was the need of the hour to understand that firms who are doing business only to earn maximized benefits in terms of revenue had to mind the ethical behavior into their consideration (Shakeel, Khan & Khan, 2011).

Being unethical for a company could create a disastrous outcome; this can be because of the employees who do not think of the people of society who are the direct or indirect stakeholders of the company (Trevino & Brown, 2004). An organization's performance would ultimately lead toward the declining stage if it would not complete its social responsibility towards society and would not act ethically and morally.

Thus, the hypothesis developed from the above discussion is:

generation is going towards the usage of tobacco by different mediums. The rationale of this research was specific context exploratory research. Primary data were amassed through personally managed questionnaires from 242 respondents in a non-contrived atmosphere during February 2013 as it was a cross sectional study. Positions of respondents included workers and managers of the organizations within Tobacco industry. Data were then analyzed and hypotheses were tested through SPSS.

### Questionnaire

Theoretical framework has been displayed above to see the whole view of taken variables. The variables which are being taken can be seen in a theoretical framework. Corporate Social Responsibility has been taken as independent variable. Organizational Performance was the dependent variable which is the ultimate outcome of an organization. The moderating role has been played by Business Ethics. The response rate was investigated by adopting 15 items of CSR from Turker, D. (2009). 6 items of Organizational Performance were taken from Kim, S. (2005) and 11 items of Business Ethics were in use from Fatoki, O., & Marembo, M. (2012). 5-point scale i.e. 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree was the base of the questionnaire. Questionnaire was further classified into four sections included first section which was about independent variable i.e. CSR. Second section asked questions from the respondents which were related to dependent variable i.e. organizational performance. In further section questions related to Business Ethics which was the moderator were asked. Fourth and the last section was about demographics.

**Table 1. Reliability Analysis**

#### Reliability Statistics

| Cronbach's Alpha | No of Items |
|------------------|-------------|
| .814             | 32          |

| Variable | Adopted From                     | Number of items | Reliability |
|----------|----------------------------------|-----------------|-------------|
| CSR      | Turker, D. (2009).               | 15              | 0.824       |
| OP       | Kim, S. (2005)                   | 6               | 0.747       |
| BE       | Fatoki, O., & Marembo, M. (2012) | 11              | 0.863       |

### Population and Sample

Three of the major Tobacco companies of Pakistan were focused for this study. 400 questionnaires were disseminated to respondents by hand and were personally administered through the technique of convenient sampling but only 242 were given back by the respondents and total response rate calculated was 60.5%.

**Table 2. Sample Characteristics**

| Sample Characteristics |               |           |            |
|------------------------|---------------|-----------|------------|
| Description            | Range         | Frequency | Percentage |
| Gender                 | Male          | 174       | 71.9       |
|                        | Female        | 68        | 28.1       |
| Qualification          | Matriculation | 3         | 1.2        |
|                        | Intermediate  | 21        | 8.67       |
|                        | Bachelors     | 91        | 37.6       |
|                        | Maters        | 102       | 42.1       |
|                        | MS            | 25        | 10.3       |
| Age                    | 20-30         | 127       | 52.4       |
|                        | 31-40         | 86        | 35.5       |
|                        | 41-50         | 29        | 11.98      |

|                 |         |     |      |
|-----------------|---------|-----|------|
| <b>Position</b> | Manager | 47  | 19.4 |
|                 | Worker  | 195 | 80.5 |

**Table 3. Correlation Analysis**

| <b>Correlation Analysis</b> |             |           |            |           |           |
|-----------------------------|-------------|-----------|------------|-----------|-----------|
| <b>Variable</b>             | <b>Mean</b> | <b>SD</b> | <b>CSR</b> | <b>OP</b> | <b>BE</b> |
| <b>CSR</b>                  | 3.9         | .57       | 1          |           |           |
| <b>OP</b>                   | 3.9         | .69       | .491**     | 1         |           |
| <b>BE</b>                   | 3.8         | .61       | .619**     | .486**    | 1         |

**Table 4. Regression Analysis**

| <b>Regression Analysis</b> |             |                |                     |
|----------------------------|-------------|----------------|---------------------|
| <b>Variable</b>            | <b>Beta</b> | <b>t value</b> | <b>Significance</b> |
| <b>CSR</b>                 | .491        | 6.372          | 0.000               |

n: 242, R Square: 0.253, Adjusted R Square: 0.242, F: 26.930, Dependent Variable: Organizational Performance

**Table 5. Moderated Regression Analysis**

**OP**

|            | <b>Beta</b> | <b>R square</b> | <b>Change in R square</b> |
|------------|-------------|-----------------|---------------------------|
| <b>CSR</b> | .491        | .253            | .253                      |
|            | .583        | .325            | .072                      |

**Females in demographic profile were 28.1% and males were 71.9%.** Females were few in the Tobacco industry because of its image in Pakistani society, people of Pakistan are much conservative minded for their wives and daughters to work in a organization which makes cigarettes etc. A huge percentage of respondents which was 42.1% were Masters, only 1.2% respondents were with matriculation degrees. People working in the tobacco industry of Pakistan were mostly between the age group of 20 to 30 which is the very young age; it means Pakistani industries are now moving from traditional old bureaucratic traps to the new empowered hierarchies.

Correlation analysis is done in the Table 3 which is showing the bond between CSR and organizational performance. A strong bond was found after correlation analysis between CSR and organizational performance (0.491\*\*,  $p < 0.05$ ).

Linear regression analysis was done to examine the combined effect of CSR and organizational performance. The result pointed out that CSR has a noteworthy impact on organizational performance (beta=.491\*\*,  $p < 0.05$ ). Value of t was 6.372. Moderated Regression Analysis shown in Table 5 was conducted to investigate the impact of CSR and Organizational Performance with the moderating role of business ethics. Relationship of CSR and organizational performance was strengthened (beta .583).

## Discussion

This study was conducted to examine the relationship of CSR, organizational performance and business ethics. There was the development of three hypotheses after going through the literature view; all of them were highly accepted. Hypotheses were accepted because the world of ethics has been now become so vast and the organizations are now aware of the possible disasters if they do not follow the ethics. CSR is the main and important factor for the organizations working within the tobacco industry of Pakistan for creating an effective and healthy image on the society. Tobacco companies are now focusing on CSR much; they are campaigning for tree plantations in different areas of Pakistan. This develops the better and healthy image of a tobacco company in the mind of their customers, and when the employees are told to behave ethically on the job; this will automatically enhance the ultimate performance of an organization.

## Conclusion

This Study has many implications for corporate sector of the tobacco industry in Pakistan, major implications of this study are being discussed further. As the usage of tobacco products like cigarettes among youngsters of Pakistan has been increasing day by day, a tobacco company should go for doing well being of society which would be ethically and morally safe. Behaving ethically in the society creates an acceptable image of the company, and its performance will be enhanced and the reputation and goodwill will be improved. In Pakistan, although companies are behaving ethically in the business environment but they still need to set a new trend of CSR on a higher level so that the whole industry could join it and the performances of organizations could be enhanced.

## Limitations

The biggest limitation in the study had been faced at the time of data collection because the sample size was not representative of the population. Even 400 questionnaires were distributed face-to-face but researchers could only get 242 back despite their best stabs.

## Future Research Directions

As the present study examined only the Pakistani Tobacco industry future researchers from other countries can go for it within their own cultural context. In future data can be collected by taking larger sample size so that the researchers could at least get a good response rate. More tobacco companies can be targeted as in this research only 3 tobacco companies which were Lakson tobacco Company, Pakistan Tobacco Company and Tobacconist Pakistan (Pvt) Ltd. were targeted.

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